NIE 24-54
16 November 1954

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INR/LDR - FILE COPY

NATIONAL INTELLIGENCE ESTIMATE
NUMBER 24-54

(Supersedes NIE-71 and SE-54)

PROBABLE DEVELOPMENTS IN ITALY

DEPARTMENT OF STATE
☐ Retain class'n ☐ Change / classify to
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EO 12356, Sec. 1.3 (a) (
FPC/HQN by FAC 6/29/95
Withdrawal No. 2-4A
R Johnson
2-7-01

Submitted by the

DIRECTOR OF CENTRAL INTELLIGENCE

The following organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 16 November 1954. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, G-2, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC and the Assistant to the Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

D. M. Murphy

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PROBABLE DEVELOPMENTS IN ITALY[1]

THE PROBLEM

To estimate the current situation and probable developments in Italy through 1958.

CONCLUSIONS

1. Italy's effectiveness as a NATO member will continue to be limited by its persistent and fundamental economic and social weaknesses, which Italy is unlikely by itself to mitigate substantially during the period of this estimate. The Italian Communist Party is the largest in Western Europe, and a further growth in Communist-Nenni Socialist strength is probable. However, while the battle against Communism is far from over, we believe that the Communists are unlikely to come to power for the reasons stated below.

2. We believe that the Communists are unlikely to undertake to seize power by force. If, however, the Communists should attempt a coup, we believe that the government, controlling the public security and military forces, almost certainly would be capable of frustrating the coup. Its present willingness to do so would be substantially increased if it were assured of prompt outside assistance.

3. A government dominated by the Christian Democrats in coalition with or supported by other anti-Communist parties will almost certainly remain in power until the next national elections. Such elections are not now scheduled before 1958, and the Christian Democrats probably will not call them before then unless they rate highly their chances of winning a parliamentary majority or of dealing the extreme Left an electoral setback.

4. Meanwhile, the Italian Government, now under moderate left-oriented Christian Democratic leadership, is likely to be more vigorous than any previous postwar government in attempting to implement economic and social reforms. However, the obstacles to the actual implementation of far-reaching reforms are great, the dimensions of popular discontent wide, and the skill and resources of the extreme Left formidable. Unless a wisely conceived program is carried out on a broad scale against the political, economic, and social bases of Communist power and prestige, the government probably will not be able to reverse the trend to the extreme Left, and the Left Bloc's parliamentary representation, now amounting to 37 percent of the Chamber of Deputies, would almost certainly increase at the next general election.

[1] This estimate supersedes NIE-71, "Probable Developments in Italy," dated 31 March 1953 and SE-54, "The Political Outlook in Italy," dated 30 December 1953.

5. We believe that the anti-Communist parties almost certainly will not permit the Left Bloc to form a government or participate in one. Nevertheless, the power of the Communist and Nenni Socialist legislators to obstruct parliamentary action might become so great as to threaten the functioning of parliamentary democracy. Should this situation arise, anti-Communist forces would probably meet it by forming a government able and willing to carry out drastic repressive measures against the extreme Left. Such a government would almost certainly be led by Christian Democrats, but its program would probably be further to the right, since it would depend for its decisive support upon the rightist parties.

6. With US assistance Italy has had a substantial postwar economic recovery. However, in spite of this achievement, the average number of unemployed remains at over two million — roughly 10 percent of the working population — with probably an equal number underemployed. The rate of investment, though high, has been inadequate to reduce the backlog of unemployment. This situation continues to constitute Italy's most crucial economic problem.

7. The political obstacles not only to carrying out large scale economic programs but even to implementing the reforms already promised are sufficiently great to make it unlikely that rapid and substantial progress will be achieved by the Scelba or probable successor governments. Assuming no serious international recession, Italy probably will be able to maintain economic stability and to continue the present rate of economic expansion. However, even over the long term the unemployment problem probably will not be greatly mitigated, unless substantial outside economic aid is available to assist in financing a long-range expansion plan.

8. The Italian armed forces at present are capable of no more than delaying action in the event of a Soviet attack. However, the military establishment is slowly but steadily improving with US aid, and morale is considered to be good, though the state of unit training varies widely. Although efforts have been made to remove Communists from sensitive positions in the armed forces, there are still a small number of Communists and Communist sympathizers in the officer corps, and a greater proportion among conscripts and other enlisted men.

9. In the event of war between the West and the Soviet Bloc, the Italian Communists, unless the military and security forces were in a position to promptly suppress them, would probably be capable of widespread sabotage in industry, transportation, and communications, particularly in northern Italy. They might also be able to seize temporary control of key areas and installations.

10. Although the popular appeals of neutralism may grow, we believe that they are unlikely to have a substantial effect on the pro-Western policies of the Italian Government. Italy almost certainly will remain firmly oriented toward the West, and particularly interested in promoting Western European integration. It will continue to rely heavily on US support. The Trieste settlement almost certainly will result in some improvement in Italo-Yugoslav relations, although in the longer run new frictions may arise out of conflicting interests in the Adriatic.

DISCUSSION

I. INTRODUCTION

11. Italy continues to be confronted with serious political, economic, and social difficulties. These persist chiefly because of a poverty in natural resources, including arable land; the long-continued failure of Italy's ruling groups to develop effective institutions and to marshal the national will in order to cope with the country's problems; and the inability of Italian postwar governments to act effectively. Italy's still growing population, now nearly 48,000,000, is larger than that of France, but its gross national product is only about half as great. Except for Spain and Portugal, Italy has the lowest level of living in Western Europe. Despite notable postwar economic development, unemployment is large and many Italians remain virtually destitute. Among the Western European democracies, only in Italy does agrarian reform remain a major national issue.

12. The government's problem is rendered more difficult by the fact that many social and political cleavages divide the population. Class lines remain among the most rigid in Europe, and the nation is divided by the issue of clericalism. A major division also exists between the impoverished South and the considerably more prosperous North. Moreover, popular feelings of economic insecurity, frustration, and cynicism continue to grow. More people are demanding fundamental changes in social relationships and a reinvigoration of Italian political institutions. In these circumstances, the failure of Italian postwar governments to raise popular hopes for improvement has resulted in the development of the largest Communist Bloc vote in Western Europe, and this vote is slowly but steadily increasing.

13. A noteworthy weakness of democracy in Italy lies in the absence of a democratic alternative to a government dominated by the Christian Democrats. The minor center parties are unable to attract many dissident voters. With about three-fourths of the Socialist voters supporting the pro-Communist Nenni Party, there is no party on the non-Communist left (such as the Labor Party in Britain) to stand as an alternative democratic government. As a result, leftist parties representing pro-Communist solutions now constitute the only significant opposition to a Christian Democrat-dominated government.

II. POLITICAL SITUATION AND TRENDS

Current Political Situation

14. In the 1948 national elections the Italian center parties, led by the late Premier De Gasperi's Christian Democratic Party and powerfully supported by Catholic Action, the lay arm of the Church in Italy, won a substantial victory over the Communist and Nenni Socialist Bloc, receiving 62 percent of the popular vote to 31 percent of the Left Bloc. Subsequently, however, the 1951–1952 local elections reflected a clear shift to the Left and, in the 1953 national elections, the center coalition received only about half of the popular vote, and the Communist-Nenni Socialist Bloc 35 percent. Local elections since that time have indicated further gains for the Communist Bloc parties. The Monarchists and the Neo-Fascists obtained about 12 percent of the vote in 1953, but local elections since then have shown a weakening of these parties, and some Christian Democratic recovery.

15. The decline in the center position since 1948 is attributable mainly to the following factors:

a. In 1948 many persons of highly conservative and nationalistic leanings were frightened into supporting the Christian Democrats in a united front against Communism; Czechoslovakia had recently fallen to the Communists and there was fear that Italy might be next. Gradually, however, fear of a Communist coup receded, and confidence in the West's ability to deter external aggression increased. Thus, many who supported the center in 1948 have since shifted their allegiance to the Monarchists and Neo-Fascists.

b. The failure of the Christian Democrats significantly to improve social and economic conditions has stimulated dissatisfactions. In particular, the continuing high level of unemployment increased the number of people, especially young people, who had no incentive to support center governments and who were attracted by the promises of the extremists.

c. There has been the normal loss of support suffered by any party long in power, magnified by the characteristic antipathy of Italians for any incumbent government. Moreover, the Christian Democrats have also been the target of widespread criticism based on anticlericalism, resentment of bureaucratic inefficiency and arrogance, and impressions of widespread corruption.

d. The "peaceful coexistence" theme of the Malenkov regime and the abandonment of militancy by the local Communists have persuaded many Italians that there has been a relaxation of world tensions. Hence, it has been continually more difficult for the center coalition to retain popular support by stressing the international and domestic dangers of Communism.

16. In the most recent general elections, held in 1953, the center coalition obtained only a bare parliamentary majority. Owing to disagreements among the center parties, a series of cabinet crises followed, until in early 1954 Prime Minister Scelba, a Christian Democrat, finally formed a center party coalition with Social Democrats and Liberals in the cabinet and Republicans supporting it from the outside. Because of the coalition's extremely narrow majority in the Parliament,[2] any relaxation of party discipline within the coalition on a major issue could result in the government's fall.

17. Establishment of a strong government has been hindered by factionalism within the Christian Democratic Party. At the party congress in Naples in June, 1954, the left wing of the Christian Democrats, led by Amintore Fanfani, won overwhelming control of the party organization, though not of the party's parliamentary delegation. Although Scelba continues as premier for the present, the center group of the late Premier De Gasperi, long the dominant faction by virtue of its ability to moderate between the left and right, has lost much of its power. Moreover, the influence of the Pella right wing, which lost substantial ground within the party at the congress, has waned further, and a split in the Monarchist Party has virtually eliminated for the time being the possibility of an effective Christian Democratic-Monarchist alliance. The left wing, or Iniziativa Democratica, appears to have won control of the Christian Democratic Party principally because of a growing demand by the party rank and file for more dynamic social and economic policies, the organizational ability of the Fanfani group, and the loss in the 1953 elections of some right wing strength to the Monarchists and Neo-Fascists.

18. Ascendancy of the left wing of the Christian Democrats, with which Scelba previously has not been closely identified, thus contributes to the internal weakness of the Scelba government. Because of Fanfani's ability to control the party organization, Scelba almost certainly could not retain office in the event of a serious clash over policies with the Fanfani faction, or of a decision by Fanfani to displace him. At the same time neither Scelba nor the Fanfani elements can move too far left too rapidly lest the party be further weakened by defections from its right wing.

Communist Strength and Capabilities

19. Although the membership of the Italian Communist Party has dropped to an estimated 1.7 million, a decline of over 20 percent from its postwar peak in 1947–1948, it remains the largest Communist party in Western Europe. It is estimated to have a hard core of nearly half a million. Membership in the Communist-dominated trade union federation (CGIL) has also declined from an estimated 6 million in 1947–1948 to about 3.5 million, but no significant membership losses appear to have occurred since about 1950, and the

[2] The party composition of the Italian Chamber of Deputies is shown in the appended chart.

non-Communist unions have not seriously threatened Communist domination of organized labor, which is particularly strong in the heavy industries, transport, and communications.

20. Despite these losses in membership, the electoral appeal of the extreme Left is continuing to improve. The Communists and their Nenni Socialist allies maintained their strength in the North in the most recent elections, and showed a rising trend in the backward South. Political intelligence is scanty concerning southern Italy, but the region appears to be becoming politically restive. The Communists, and the CGIL also, have been undertaking intensive organizational activities in the area, which traditionally has been a Monarchist stronghold. With their strength in the North fairly stabilized, the Communists apparently look to the South for the additional votes they need to capture a popular majority, though the Christian Democrats also are improving their organization in the area.

21. The growing popular support of the extreme Left derives from a number of causes. The absence of any other effective political party which attracts protest votes on the left, the relatively moderate tactics which the local Communists have pursued, and the new moderation which many Italians see in Soviet foreign policy increase the Left Bloc's appeal. In addition, with their high-powered propaganda machine, their energetic and efficient organization, and their highly skilled leadership, the Communists exploit the numerous shortcomings of the incumbent administration, the difficulties of the Italian social and economic situation, and the consequent mounting popular sentiment for broad reforms in Italian political life and social relationships.

22. Another important factor in the strength of the Italian Communist Party is its large financial resources. In addition to membership dues, voluntary contributions, and Soviet subsidies, the party obtains financial support from various Communist-controlled enterprises. It realizes considerable profit from both legal and illegal trade with Soviet Bloc countries because of the party's control or ownership of import-export firms. The Communists also own a number of cooperatives and concessions and, through their controlling influence over local government administrations, profit from contracting arrangements made on various types of goods and services.

23. We do not believe that the Communists are likely to undertake to seize power by force. It is possible, of course, that a revolutionary situation might develop, in which the Left would seek to overthrow the government. The Communists might also attempt a coup in the event of a sharp government shift to the extreme right, particularly if they estimated that this government intended to institute drastic police action to destroy the party. Nevertheless, we believe that if a Communist coup imminently threatened or was attempted, the government, with its control of the public security and military forces, almost certainly would be capable of frustrating the coup. Its present willingness to do so would be substantially increased if it were assured of prompt outside assistance. We believe that the Communists share this view and almost certainly would be reluctant to attempt to seize power.

24. In the event of war between the West and the Soviet Bloc, the Italian Communists, unless the military and security forces were in a position to promptly suppress them, would probably be capable of widespread sabotage in industry, transportation, and communications, particularly in northern Italy, and might also be able to seize temporary control of key areas and installations. Although we believe that most of the wartime arms caches of the Communists have been seized, some consisting primarily of small arms probably still remain in Communist hands. Moreover, gun-running to the Italian coast probably would not be difficult. Soviet operations would also be aided by Communist espionage and by some actively disloyal members of the armed forces.

25. The power of the Communist Party would be greatly reduced if it lost the support of the Nenni Socialists, who comprise about

three-fourths of the Italian Socialists and contribute over one-third of the electoral strength of the extreme Left coalition. Although Nenni's party has been seriously infiltrated by the Communists, who might be able to retain control of the party organization even in the event of Nenni's defection, Nenni himself has a vast popularity among the Socialist electorate and many of his supporters probably would follow him. However, we believe that Nenni is so deeply committed to his present course that he is unlikely to repudiate his Communist allies. Accordingly, he would not be accepted as a member of a Christian Democratic-dominated government.

Probable Political Trends

26. Over the short term at least, little change in the present parliamentary alignment of the non-Communist parties is likely. The Christian Democratic-dominated coalition, including the Liberals, Social Democrats, and Republicans, probably will continue, and so will the cooperation between the Monarchists and and the Neo-Fascists. The Scelba government probably will remain in office through 1954 and possibly until the parliament elects a new President of the Republic in mid-1955.

27. With Italy's extreme rightists temporarily disunited as a result of electoral setbacks and factionalism, and the right wing of the Christian Democratic Party at least temporarily in eclipse as a result of the sweeping victory of the Fanfani left at the last party convention, the stage appears to be set for a moderate leftward swing in Italian domestic policy. By mid-1955 Scelba himself is likely to be replaced by Fanfani, or by a Fanfani candidate, and other ministerial changes are likely. Although there is some uncertainty as to Fanfani's intentions, and he might be willing to make deals with the Italian right, we believe it more likely that he will continue his left-center orientation.

28. The Scelba government, and more especially a successor government led by Fanfani or his nominee, is likely to be more vigorous than any previous postwar governments in attempting to implement economic and social reforms already legislated or planned. The coalition parties recognize more clearly than ever that modest anti-Communist measures and improved party organization cannot by themselves undermine the electoral power of the extreme Left, and that tangible results in such fields as tax, land, and bureaucratic reforms, as well as unemployment relief, are necessary.

29. However, the obstacles to the actual implementation of far-reaching reforms are formidable. The costs of the necessary programs will seem to the Italian Government to exceed its economic capabilities. Divisions and rivalries within the coalition, and within the Christian Democratic Party as well, probably will hamper the application of any resolute program. The need to placate right wing Parliamentary supporters, who oppose any substantial modification of existing conditions, probably will force the leaders into frequent compromises in order to preserve the government's slim majority.

30. National elections are not now scheduled before 1958, the constitutional limit on the life of the present Parliament, and they almost certainly will not be held before the fall of 1955. Between those dates the Cabinet may pass through periods of instability, which will evoke demands from the extreme Left and possibly the right for immediate elections. However, the initiative for calling elections will remain with the Christian Democrats by virtue of their near-majority position in Parliament, and they almost certainly will not call an election before 1958 unless they rate highly their chances either of winning a Parliamentary majority themselves or, in collaboration with other anti-Communist parties, of dealing the extreme Left an electoral setback.

31. Meanwhile, the government almost certainly will carry out further harassing measures against the Communist Party. The government's anti-Communist program will probably be more thorough and aggressive than that of any previous postwar government. If wisely conceived and effectively executed, such a program would almost certainly hamper the party's activities substantially and probably

would result in some reduction in Communist electoral strength. Many voters who now support the Communist Bloc for personal rather than ideological reasons would probably shift their support to a government which demonstrated strength and resolution, and which deprived the Communists of their ability to provide material benefits for their supporters. On the other hand, indiscriminate anti-Communist measures which hurt non-Communists as well probably would provoke an adverse reaction among some supporters of the government. In any event, the basic political appeal of the Left Bloc probably cannot be substantially reduced as long as the hope of amelioration of unsatisfactory political, economic, and social conditions by a democratic regime remains frustrated.

32. At the same time, the Christian Democrats will make strenuous efforts to improve their party organization throughout the country. With a recession in the popularity of Monarchists and Neo-Fascists likely, particularly in the South, the Christian Democrats may make limited net gains in electoral support in some areas, especially if the Vatican supports Catholic unity within the Christian Democratic Party and the reform program of that party.

33. Unless a wisely conceived program is carried out on a broad scale against the political, economic, and social bases of Communist power and prestige, the government probably will not be able to reverse the trend to the extreme Left, and the Left Bloc's parliamentary representation, now amounting to 37 percent of the Chamber of Deputies, would almost certainly increase at the next general election.

34. In any event, we believe that the anti-Communist parties almost certainly will not permit the Left Bloc to form a government or permit it to participate in one. Nevertheless, the power of the Communist and Nenni Socialist legislators to obstruct parliamentary action and to capitalize on potential divisions among the center parties might become so great as to threaten the functioning of parliamentary democracy. Should this situation arise, anti-Communist forces would probably meet it by forming a government able and willing to carry out drastic repressive measures against the extreme Left. Such a government would almost certainly be led by Christian Democrats, but its program would probably be further to the right since it would depend for its decisive support upon the rightist parties.

III. PROBABLE ECONOMIC TRENDS

35. Italy is deficient in almost all basic resources save manpower and hydroelectric potential. Over 90 percent of its coal, most of its oil, half of its iron ore, nearly all of its textile fibers, and even some of its wheat must be imported. Thus the Italian economy is dependent on a high and stable level of foreign commerce and substantial receipts from tourism, and it is sensitive to international economic fluctuations. Indeed Italy's ability to preserve free institutions may ultimately depend upon the maintenance of a high level of international trade, and upon the reduction of restrictions on the international movement of capital and labor.

36. Despite its inadequate natural resources, Italy has had a substantial postwar recovery, achieved with large US assistance. Much plant and equipment have been replaced and modernized, new production methods introduced, transport and marketing improved, and new products and new industries developed. Gross national product in 1953 was approximately seven percent above that of 1952. Within a framework of stable price levels, there were substantial increases in industrial output, agricultural production, value of imports and exports, gold and foreign exchange receipts, savings deposits, and consumption. In many cases prewar levels were greatly exceeded. Moreover, there have been petroleum and natural gas discoveries which have benefited some industries and consumers, although their ultimate potential for substantially reducing Italy's high petroleum and coal imports has not yet been determined. In spite of these achievements, the average number of unemployed remains at over two million — roughly 10 percent of the working population — with probably an equal number

underemployed. The rate of investment, though high, has been inadequate to reduce the backlog of unemployment. This situation continues to constitute the most crucial problem of the Italian economy.

37. Italy's economic problems are intensified by various institutional weaknesses, notably: (a) the inefficient operations of numerous state-owned productive enterprises, which were inherited from the fascist era but never adequately reorganized; (b) large-scale state subsidization and protection of inefficient private enterprises; (c) the forced retention of excess workers on farm, factory, and government payrolls; (d) the adverse effects on the price structure and on innovation in new business initiatives resulting from monopolistic business organization and restrictive practices; and (e) an inefficient tax system which, together with large-scale tax evasion, limits the government's ability to mobilize resources by noninflationary means. These factors have made it more difficult for Italy to take full advantage of the economic opportunities arising from its substantial postwar technological progress. Corrective measures would require a strong and efficient government and would involve painful readjustments. The ascendancy within the Christian Democratic Party of left-center elements, as well as the pivotal role played by the Social Democrats since the last election, enhance the chances for needed reforms. The Scelba government has pledged itself to policies of economic development and reform, increased employment, and financial stability. Analytical work is going forward on the problems involved in a 10 year economic expansion program designed to alleviate unemployment by creating four million jobs over that period.

38. Nevertheless, we believe that political obstacles to achieving broad reforms, and to carrying out comprehensive economic plans which would require large-scale investment, probably are sufficiently great to make it unlikely that rapid and substantial progress will be achieved by the Scelba or probable successor governments. Important right wing elements within the coalition, whose support the government needs, oppose many reforms. Moreover, these groups fear that radical programs and large-scale investment would generate inflationary pressures and dislocations which would be a greater threat to political and social stability than the failure to increase the rate of economic expansion. In addition, the government itself, in the last analysis, probably will make large-scale expansion policies contingent on the receipt of foreign aid and, if this aid does not become available, will not be likely to increase its investment expenditures sufficiently to carry through these policies.

39. Assuming no serious international recession, Italy will probably be able to maintain economic stability and continue the present rate of economic expansion. However, even over the long term the unemployment problem probably will not be greatly mitigated unless substantial outside economic aid is available to assist in financing a long-range expansion plan.

IV. PROBABLE MILITARY TRENDS

40. Italy's military establishment is slowly but steadily improving with US aid, and morale is considered to be good. Individual training is generally good, while the status of unit training varies from fair to excellent. Although the services are predominantly loyal to the government, Communist infiltration of the Air Force, the Army, and to a lesser extent the Navy, makes probable some sabotage and harassment in the event that Italy were to enter a general war against the Soviet Bloc. Although efforts have been made to remove Communists from sensitive positions in the armed forces, there are still a small number of Communists and Communist sympathizers in the officer corps, and a greater proportion among conscripts and other enlisted men.

41. The Army consists of 10 infantry and three armored divisions and five Alpine brigades, as well as numerous independent units. The strength of the Army will probably remain about the same, varying roughly from 225,000 to 275,000 depending on the number of conscripts in service. Modernization of weapons has been extensive, and deficiencies in equipment eventually may be overcome

through US aid. Although it is now capable of only a limited defensive role, if the Army continues to improve at its present rate it will probably be able to engage in sustained combat by 1958.

42. Within the past two years the Air Force has achieved substantial progress, particularly in equipment, training, and combat readiness. Its strength is about 46,000 officers and men (including about 3,500 pilots), with some 400 jet fighters. Of these, some 225 F–84G fighters are assigned to nine fighter-bomber squadrons, which are currently combat-ready. Nevertheless, serious deficiencies still exist in the Air Force, especially in air defense and maintenance capabilities. By 1957–1958 the Italian Air Force probably will have made additional progress in solving these deficiencies; nevertheless, some units will continue to remain below SHAPE minimum readiness standards and the over-all numbers of men and aircraft probably will not be increased appreciably. The most significant advance will probably occur in air defense, as existing interceptor squadrons are re-equipped and an operational aircraft control and warning system is developed.

43. The Italian Navy of about 39,000 officers and men is being reconstituted with US aid primarily as a small-ship defensive force. This program includes modernization of older ships, acquisition of ships from the US, and construction of new vessels in Italy. Its combat effectiveness is at present limited by deficiencies in training and equipment and by lack of modern submarines and effective antisubmarine warfare aviation. In the event of general war, however, it could contribute combat elements which could perform antisubmarine, minesweeping, and escort and patrol duties at acceptable standards.

44. With respect to fulfillment of NATO commitments for 1954 and 1955, the Army is meeting its numerical force goals, but deficiencies in equipment, training, qualified active and reserve personnel, and logistical support must be overcome before even SHAPE minimum readiness standards are reached. At present the Italian Air Force is not fulfilling its NATO commitments, and the chances for achieving 1955 NATO provisional goals are slight. Currently, the Italian Navy could not fully carry out its assigned NATO missions, because one-third of the NATO-committed ships are either undergoing major modernization or are under construction. Because of anticipated delays in the delivery of new vessels, the Navy will probably fall short of units scheduled under the 1955 NATO provisional D+180 goals.

45. Lack of funds is the chief barrier to attainment of NATO goals. Italy has more than sufficient manpower and industrial capacity to meet these objectives and, in addition, to produce equipment for its allies. However, in view of the government's emphasis on financing economic and social programs and its probable unwillingness to undertake what it would consider to be inflationary financing, we believe that Italy will reduce even its present defense outlay.

46. Italy has many competent scientists and its theoretical research is both good and well organized, but its applied research and development is poorly financed and severely limited. Owing primarily to inadequate funds, Italy's research facilities and scientific and technological manpower probably will not contribute significantly to Western military or economic strength in the near future. At present Italy is not engaged in research or development in the field of military application of atomic energy, although it has displayed interest in peaceful uses.

V. FOREIGN POLICY TRENDS

47. Italy's current foreign policy objectives are to: (a) obtain foreign economic assistance, secure outlets for excess population through emigration, and promote European integration, all primarily as contributing toward a solution of Italy's pressing economic and social problems; (b) improve Italy's status and prestige in world affairs; and (c) increase Italian influence in the Adriatic.

48. However, Italy's ability successfully to take the initiative on any important international questions is limited, and the Italian Government recognizes that its objectives can be realized only if Italy is a part of a Western

coalition supported by the US. Through membership in NATO and Western European Union Italy hopes not only to obtain greater military security and avoid war, but also to achieve its other foreign policy objectives. In general, the Italians consistently have supported all moves toward greater European integration.

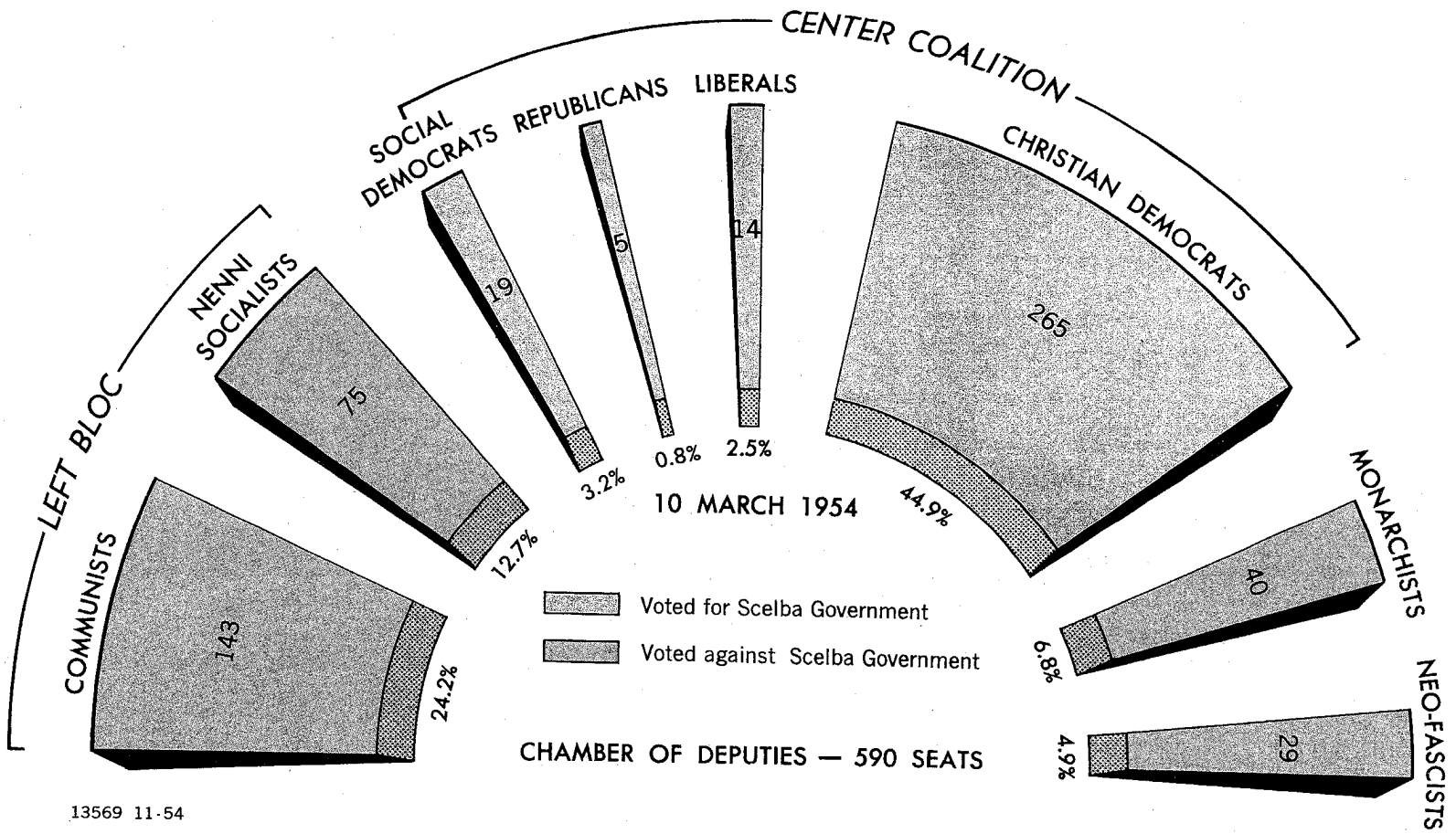
49. Italy's adherence to NATO and to European institutions is supported by all center political parties and by the Vatican. Even a rightist and nationalist government would probably remain aligned with the Western coalition. Although the popular appeals of neutralism may grow, we believe that they are unlikely to have a substantial effect on the policies of the Italian Government, which almost certainly will remain firmly oriented toward the West for the foreseeable future. Italy almost certainly will remain attached to NATO and Western European Union, and its policies toward the Soviet Bloc and West Germany will closely parallel those of the US. While Italy will seek greater trade with the Soviet Bloc, it will not oppose US leadership on questions of trade control to the same degree that may be expected from France and the UK.

50. Although most Italians almost certainly are reconciled to the loss of their colonies, Italy will probably continue its efforts to reestablish economic influence in Africa. There is strong nationalist feeling on Adriatic questions.

51. The Trieste settlement will almost certainly result in some improvement in Italo-Yugoslav relations, thus greatly facilitating NATO defense planning in the area. Moreover, Italy eventually may become a member of the Balkan Alliance. However, in the longer run, new frictions between Italy and Yugoslavia may arise out of conflicting interests in the Adriatic, which may also cause some strain on relations between Italy and its NATO allies.

52. While Italy probably will remain firmly committed to the NATO Alliance, its basic social and economic weaknesses will create continued problems for the US and Italy's other allies, and it will rely heavily on continued US support.

PARTY SUPPORT OF THE ITALIAN GOVERNMENT



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